

**Fulton Schools
Middleton, Michigan**

FINANCIAL STATEMENTS

June 30, 2007

Fulton Schools
Middleton, Michigan
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June 30, 2007

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Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Fulton Schools
Middleton, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fulton Schools as of and for the year ended June 30, 2007, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Fulton Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Fulton Schools as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2007, on our consideration of Fulton Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Fulton Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 27, 2007

This section of Fulton Schools' annual report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2007. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Fulton Schools, a K-12 school district located in Gratiot County, Michigan, has presented its financial statements under the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Fulton Schools' management's discussion and analysis of the financial results for the fiscal year ended June 30, 2007.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Fulton Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and longer-term view of the finances. The *Fund Financial Statements* provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund individually; the Special Revenue Funds, Debt Service Funds, and Capital Project Fund collectively as other nonmajor governmental funds. The remaining statement, (the statement of fiduciary net assets), presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

District-Wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the basic financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the Statement of Net Assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the Statement of Activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food service. Property taxes, unrestricted State Aid (foundation allowance revenue), State and Federal grants, and other local dollars finance most of these activities.

The District-wide financial statements are full accrual basis statements. They report all the District's assets and liabilities, both short and long-term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Service Funds solely for the payment of long-term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the District-wide financial statements.

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2007**

Fund Financial Statements

The fund level financial statements are reported on the modified accrual basis. Only those assets that are "measurable" and "available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Funds, the Special Revenue (School Service) Funds which are comprised of: Food Service and Athletics, Permanent Funds, and Capital Project Funds.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No capital assets are reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

Summary of Net Assets:

The following summarizes the net assets as of June 30, 2007.

Condensed Statement of Net Assets
as of June 30, 2007 and 2006

	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
Assets		
Current Assets	\$ 3,078,512	\$ 3,105,845
Capital Assets	<u>2,043,314</u>	<u>2,186,642</u>
Total Assets	5,121,826	5,292,487
Liabilities		
Current Liabilities	817,119	1,028,658
Long-Term Liabilities	<u>431,871</u>	<u>464,033</u>
Total Liabilities	1,248,990	1,492,691
Net Assets		
Invested in capital assets, net of related debt	1,794,412	1,713,215
Restricted	7,996	155,684
Unrestricted	<u>2,067,428</u>	<u>1,930,897</u>
Total Net Assets	<u>\$ 3,872,836</u>	<u>\$ 3,799,796</u>

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2007**

Analysis of Financial Position:

As detailed above, the district shows a positive total net asset value of \$3,872,836 for the fiscal year ended June 30, 2007. This statement has been affected by the following factors:

- A significant number of the District's capital assets are older but fortunately the debt related to the assets is also declining enough annually to show positive net assets invested in capital assets net of related debt.
- The District is able to show positive net working capital of \$2,261,393 indicating that they can meet current obligations with current assets.

Results of Operations:

For the fiscal year ended June 30, 2007 and 2006 the District-wide results of operations were:

Condensed Statement of Activities
Year Ended June 30, 2007 and 2006

	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
Revenues:		
Program Revenues		
Charges for Service	\$ 243,502	\$ 229,370
Operating Grants	732,897	696,583
General Revenues		
Property Taxes	431,035	380,181
State School Aid - unrestricted	7,139,445	6,866,873
Investment Earnings	69,589	70,753
Special Education county allocation	321,763	332,750
Other	<u>39,985</u>	<u>51,041</u>
Total Revenues	8,978,216	8,627,551
Functions/Program Expenses:		
Instruction	5,122,236	5,439,077
Supporting services	2,616,531	2,750,358
Community services	205,420	220,329
Food service	304,142	292,690
Athletics	277,666	274,935
Other transactions	149,032	262,202
Interest on long-term debt	24,005	36,816
Unallocated depreciation	<u>206,144</u>	<u>248,847</u>
Total Expenses	<u>8,905,176</u>	<u>9,525,254</u>
Increase in Net Assets	<u>\$ 73,040</u>	<u>\$(897,703)</u>

Analysis of Results of Operations:

During fiscal year ended June 30, 2007, the District's net assets increased by \$73,040. Several factors, which helped cause the increase, are discussed in the following sections.

A. Governmental Funds Operating Results

The District's expenditures for governmental funds operations exceeded its revenues by \$23,920 for the fiscal year ended June 30, 2007, mainly due to the revenues over expenditures in the general fund offset by the utilization of fund balance for the last debt service payment on the 1992 bonds in the Debt Service Funds. Further discussion of the District's operating results is available in the section entitled "Results of 2004-2006 Operations" located on the following pages.

B. Depreciation Expense

The cost of capital assets is allocated over the useful lives of the assets as depreciation expense. During 2006-2007, district assets depreciated in the amount of \$206,144.

C. Long-Term Debt Activities

The District reduced its long-term bonded debt obligation during 2006-2007 by making principal payments amounting to \$227,525.

Results of 2006-2007 Operations

During fiscal year ended June 30, 2007, the District net assets increased by \$73,040. A few additional significant factors affecting net assets during the year are discussed below:

A. General Fund Operations

The General Fund is the main fund for the District and includes all the costs related to educating the students of the Fulton Schools such as: salaries and benefits for Teachers, Classroom Paraprofessionals, Administrators, Secretaries, Custodians, Maintenance staff, Librarians, Counselors, Bus Drivers and other miscellaneous positions; teaching supplies, employee training, utilities, building maintenance supplies and other.

The District's expenditures for General Fund operations exceeded revenues by \$144,019 for the fiscal year ended June 30, 2007. The General Fund as of June 30, 2007, has a fund balance of \$2,312,585 for the 2006-2007 fiscal year.

B. Debt Service Fund Operations

The Debt Service Funds consist of the 1992 Debt Fund. The Debt Service Funds are set up to collect intergovernmental appropriations and taxes in order to satisfy annual debt payments. At June 30, 2007, the Debt Service Funds had \$17,535 in fund equity available for future bond payments. The equity amount of \$17,535, less accrued interest payable of \$9,539 is restricted for debt service on the district-wide financial statements.

The School District levies taxes to make debt payment obligations on the 1992 Debt. If taxes levied are not sufficient the School District will borrow funds from the Michigan School Bond Loan Fund. Any funds borrowed from the Michigan School Bond Loan Fund will be paid back toward the end of the bond obligations. The final debt payment on the 1992 bonds was made in the current year.

The District made principal payments from both the Debt Service Funds and General Fund on long-term debt obligations that reduced the amount of the District's long-term liabilities as follows:

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2007**

	Principal Balance <u>June 30, 2006</u>	Principal Payments	Principal Balance <u>June 30, 2007</u>
1992 Bonds	\$ 200,000	\$ 200,000	\$ -0-
Durant Bonds	44,070	-	44,070
Installment Loans	<u>229,357</u>	<u>27,525</u>	<u>201,832</u>
Total long-term bond obligations	<u>\$ 473,427</u>	<u>\$ 227,525</u>	<u>\$ 245,902</u>

The District also had \$296,362 in accumulated sick pay for the year ended June 30, 2007. For more details on long-term debt see Note F in the financial statements.

C. School Service (Special Revenue) Funds

The Fulton Schools also has school service funds that include the following: Food Service Fund and Athletics Fund.

The Food Service Fund is a fund that reports the food service program. In 2006-2007 the Food Service Fund had revenues of \$293,496 and expenditures of \$315,819. The Food Service Fund is supposed to be self-supporting and reimburses the General Fund for all identified overhead costs associated with its operation. The District contributed \$11,677 from the General Fund to aid in covering costs reported in this fund. The Food Service Fund had a fund balance of \$13,128.

The Athletics Fund includes all costs for high school and middle school athletic programs including the cost for coaches, officials, supplies, tournaments, and miscellaneous. In 2006-2007 the Athletics Fund had revenues of \$277,740 and expenditures of \$277,666. The Athletics Fund generated \$66,911 in revenue from gate receipts, passes, fees, donations, and other miscellaneous items. The Athletics Fund must be a balanced budget and the District contributed \$210,829 from the General Fund to balance the fund. The Athletics Fund had a fund balance of \$1,567.

D. Net Investment in Capital Assets

The District's net investment in capital assets decreased by \$222,686 during the fiscal year. This can be summarized as follows:

	Balance <u>June 30, 2006</u>	Net Change	Balance <u>June 30, 2007</u>
Capital assets	\$ 7,798,523	\$ 62,816	\$ 7,861,339
Less: accumulated depreciation	<u>(5,611,881)</u>	<u>(206,144)</u>	<u>(5,818,025)</u>
Net investment in capital outlay	<u>\$ 2,186,642</u>	<u>\$ (143,328)</u>	<u>\$ 2,043,314</u>

IMPORTANT ECONOMIC FACTORS
A. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- State of Michigan State Aid Act per student foundation allowance.
- Student Enrollment - Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count,
- The District's non-homestead property valuation.

B. Per Student Foundation Allowance

Annually, the State of Michigan establishes the per student foundation allowance. The Fulton Schools foundation allowance was \$7,085 per student for the 2006-2007 school year.

C. Student Enrollment

The District's State Aid Membership count for 2006-2007 was 1,030 students. The following summarizes the membership amounts over the past three years:

	<u>Membership</u>	<u>Change from Prior Year</u>
2006-2007	1,030	(9)
2005-2006	1,039	(4)
2004-2005	1,043	14

D. Property Taxes levied for General Operations (General Fund Non-Homestead Taxes)

The District levied 16.8512 mills of property taxes for operations (General Fund) on Non-Homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or five (5) percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value. The District's non-homestead property tax revenue for the 2006-2007 fiscal year was \$369,978.

E. Debt Fund Property Taxes

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead.

For 2006-2007 the District's debt millage levy was .5 mills, which generated revenue of \$60,398.

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

Listed below is an analysis of the original budget and final budget to the final actual.

General Fund Revenues and Other Sources - Budgetary Comparison

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variances</u>	
				<u>Actual & Original Budget</u>	<u>Actual & Final Budget</u>
2006-2007	8,093,793	8,535,103	8,563,120	5.8%	.3%
2005-2006	8,101,643	8,150,103	8,205,585	1.3%	.7%
2004-2005	7,717,118	8,133,595	8,239,912	6.8%	1.3%

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2007**

General Fund Expenditures and Other Uses - Budgetary Comparison

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variances</u>	
				<u>Actual & Original Budget</u>	<u>Actual & Final Budget</u>
2006-2007	8,402,535	8,460,744	8,419,101	(.2)%	.5%
2005-2006	8,661,350	8,916,774	8,904,654	(2.8)%	.1%
2004-2005	8,200,775	8,298,223	8,202,223	(.01)%	.1%

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the Board of Education approve the original budget for the upcoming year prior to July 1, the start of the fiscal year.

As a matter of practice, Fulton Schools amends its budget periodically during the school year. The June 2007, budget amendment was the final budget for the fiscal year.

General Fund Expenditures:

The District's budget for expenditures changed as follows during the year:

Total Expenditures and other uses - Original Budget	\$ 8,402,535
Total Expenditures and other uses - Final Budget	<u>8,460,744</u>
Increase in Budget Expenditures and other uses	<u>\$ 58,209</u>

The District's actual expenditures and other uses were less than the final budget by \$41,643.

Some of the significant changes in the expenditure and other uses budget for the year include:

- School wide employee fingerprinting mandated by the State of Michigan
- Additional special education transportation para-pros needed for bus runs
- Retirement and severance payment for several employees
- Supplemented our Food Service account with the purchase of freezer
- Implemented a sick bank for a transportation employee

Revenue and other sources Change from Original to Final Budget:

Total Revenues and other sources - Original Budget	\$ 8,093,793
Total Revenues and other sources - Final Budget	<u>8,535,103</u>
Increase in Budget Revenues and other sources	<u>\$ 441,310</u>

The District's final actual general fund revenues and other sources were greater than the final budget by \$28,017.

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2007**

The final revenue and other sources budget reflected the following changes from the original budget.

- Higher FTE's then originally budgeted
- Increase in the special educ. instructional and transportation cost reimbursed by state of Michigan
- Received extra federal money for our Adult Basic Education program.
- Received extra Adult Education money from the state at the end of the school year
- Interest income on investments higher then originally anticipated

Additional Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration considered many factors when setting the School District's 2008 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2008 fiscal year is 25 percent and 75 percent of the February 2007 and September 2007 student counts, respectively. The 2008 fiscal year budget was adopted in June 2007, based on an estimate of students that will be enrolled in September 2007. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2007-2008 school year, we anticipate that the fall student count will be slightly higher than the estimates used in creating the 2008 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State Funding and the status of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Fulton Schools, 8060 Ely Highway, Middleton, Michigan 48856.

BASIC FINANCIAL STATEMENTS

Fulton Schools

STATEMENT OF NET ASSETS

June 30, 2007

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 1,690,541
Investments	25,763
Accounts receivable	619
Interest receivable	673
Due from other governmental units	1,319,953
Prepays	35,605
Inventory	5,358
Total current assets	3,078,512
Noncurrent assets	
Capital assets not being depreciated	
Capital assets, net of accumulated depreciation	12,225
	2,031,089
Total noncurrent assets	2,043,314
TOTAL ASSETS	5,121,826
LIABILITIES	
Current liabilities	
Accounts payable	34,091
Accrued payroll	426,132
Other accrued liabilities	229,393
Due to others	7,571
Accrued interest payable	1,911
Current portion of compensated absences	88,909
Current portion of long-term debt	29,112
Total current liabilities	817,119
Noncurrent liabilities	
Accrued interest payable	7,628
Noncurrent portion of compensated absences	207,453
Noncurrent portion of long-term debt	216,790
Total noncurrent liabilities	431,871
TOTAL LIABILITIES	1,248,990
NET ASSETS	
Invested in capital assets, net of related debt	1,797,412
Restricted for debt service	7,996
Unrestricted	2,067,428
TOTAL NET ASSETS	\$ 3,872,836

See accompanying notes to financial statements.

STATEMENT OF ACTIVITIES

Functions/Programs	Expenses	Program Revenues Charges for Services	Operating Grants	Net (Expense) Revenues and Changes in Net Assets Governmental Activities
Governmental activities				
Instruction	\$ 5,122,236	\$ 27,079	\$ 570,285	\$ (4,524,872)
Supporting services	2,616,531	-	30,564	(2,585,967)
Community services	205,420	-	-	(205,420)
Food Service	304,142	149,567	132,048	(22,527)
Athletics	277,666	66,856	-	(210,810)
Other transactions	149,032	-	-	(149,032)
Interest and fees on long-term debt	24,005	-	-	(24,005)
Unallocated depreciation	206,144	-	-	(206,144)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 8,905,176	\$ 243,502	\$ 732,897	(7,928,777)
General Revenues				
Property taxes				431,035
State school aid - unrestricted				7,139,445
Investment earnings				69,589
Special education county allocation				321,763
Miscellaneous				39,985
TOTAL GENERAL REVENUES				8,001,817
CHANGE IN NET ASSETS				73,040
Net assets, beginning of year				3,799,796
Net assets, end of year				\$ 3,872,836

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Fulton Schools

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2007

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,645,321	\$ 45,220	\$ 1,690,541
Investments	-	25,763	25,763
Accounts receivable	619	-	619
Interest receivable	673	-	673
Due from other funds	-	1,732	1,732
Due from other governmental units	1,317,653	2,300	1,319,953
Inventories	2,171	3,187	5,358
Prepays	35,605	-	35,605
TOTAL ASSETS	\$ 3,002,042	\$ 78,202	\$ 3,080,244
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 32,200	\$ 1,891	\$ 34,091
Accrued payroll	426,132	-	426,132
Other accrued liabilities	229,393	-	229,393
Due to other funds	1,732	-	1,732
Due to others	-	7,571	7,571
TOTAL LIABILITIES	689,457	9,462	698,919
FUND BALANCE			
Reserved for			
Inventories and prepaids	37,776	3,187	40,963
Debt service	-	17,535	17,535
Scholarships	-	27,763	27,763
Unreserved			
Undesignated, reported in:			
General fund	2,274,809	-	2,274,809
Special revenue funds	-	11,508	11,508
Capital projects fund	-	8,747	8,747
TOTAL FUND BALANCE	2,312,585	68,740	2,381,325
TOTAL LIABILITIES AND FUND BALANCE	\$ 3,002,042	\$ 78,202	\$ 3,080,244

See accompanying notes to financial statements.

Fulton Schools

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET ASSETS

June 30, 2007

Total fund balance - governmental funds **\$ 2,381,325**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 7,861,339	
Accumulated depreciation is	<u>(5,818,025)</u>	
		2,043,314

Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Bonds and loans payable	245,902	
Accrued interest payable	9,539	
Compensated absences	<u>296,362</u>	
		<u>(551,803)</u>

Net assets of governmental activities **\$ 3,872,836**

See accompanying notes to financial statements.

Fulton Schools

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended June 30, 2007

	General	Nonmajor Governmental Funds	Totals Governmental Funds
REVENUES			
Local sources	\$ 530,130	\$ 283,048	\$ 813,178
State sources	7,467,164	17,944	7,485,108
Federal sources	244,063	114,104	358,167
TOTAL REVENUES	8,241,357	415,096	8,656,453
EXPENDITURES			
Current			
Instruction	5,165,710	-	5,165,710
Supporting services	2,636,266	-	2,636,266
Community services	205,420	-	205,420
Food service	-	315,819	315,819
Athletics	-	277,666	277,666
Debt service	40,167	212,056	252,223
TOTAL EXPENDITURES	8,047,563	805,541	8,853,104
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	193,794	(390,445)	(196,651)
OTHER FINANCING SOURCES (USES)			
County special education allocation	321,763	-	321,763
Payments to other districts	(149,032)	-	(149,032)
Transfers from other funds	-	222,506	222,506
Transfers to other funds	(222,506)	-	(222,506)
TOTAL OTHER FINANCING SOURCES (USES)	(49,775)	222,506	172,731
CHANGE IN FUND BALANCES	144,019	(167,939)	(23,920)
Fund balances, beginning of year	2,168,566	236,679	2,405,245
Fund balances, end of year	<u>\$ 2,312,585</u>	<u>\$ 68,740</u>	<u>\$ 2,381,325</u>

See accompanying notes to financial statements.

Fulton Schools

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

Net change in fund balances - total governmental funds \$ (23,920)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	62,816	
Depreciation expense	<u>(206,144)</u>	
Excess of depreciation expense over capital outlay		(143,328)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Long-term debt principal retirements	227,525
--------------------------------------	---------

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	693	
Decrease in compensated absences	<u>12,070</u>	
		<u>12,763</u>

Change in net assets of governmental activities \$ 73,040

See accompanying notes to financial statements.

Fulton Schools

Fiduciary Fund

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2007

	Agency Fund
ASSETS	
Cash	<u>\$ 65,740</u>
LIABILITIES	
Due to	
Elementary	\$ 22,579
Middle School/High School	24,091
Band Boosters	5,372
PTO	<u>13,698</u>
TOTAL LIABILITIES	<u>\$ 65,740</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Fulton Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity (as amended by GASB Statement No. 39)*; and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Fulton Schools (primary government). The District has no activities that would be classified as component units.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the district-wide statements) present information for the district as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the district-wide statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The district-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The District utilizes governmental and fiduciary funds.

The governmental fund financial statements present the District's individual major fund and aggregated nonmajor funds. A separate column is shown for the major fund on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column. The fiduciary funds are reported by type.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The major fund of the District is:

- a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the District receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

4. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types.

The District does not maintain a formalized encumbrance accounting system. All annual appropriations lapse at fiscal year end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted to the functional level; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Budgets and Budgetary Accounting - continued

- e. The Superintendent is authorized to transfer budgeted amounts for purposes of meeting emergency needs of the District; however, these transfers must be approved subsequently by the Board of Education.
- f. Formal budgetary integration is employed as a management control device during the year for all governmental fund types.
- g. The budget, as presented, has been amended in a legally permissible manner. Four (4) supplemental appropriations were made during the year with the last approved June 27, 2007.

5. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of checking and savings accounts and pooled investment funds. Cash equivalents are recorded at market value. Investments consist of certificates of deposit with an original maturity of greater than 90 days. Investments are recorded at market value.

6. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the governmental funds balance sheet.

7. Inventories

Inventories are stated at cost on a first in/first out basis. The Food Services Fund inventory consists of food and paper goods. Inventory amounts are equally offset by a fund balance reserve in the fund financial statements, which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

8. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments for the fiscal year ended June 30, 2007 to be paid in July and August 2007. The total amount of \$1,319,953 due from other governmental units consists of \$1,308,070 and \$11,883 related to State Aid and grant and local programs, respectively.

9. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**9. Capital Assets - continued**

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and additions	5 - 20 years
Equipment and furniture	5 - 20 years
Vehicles	8 years
Other capital equipment	5 - 20 years

The District has no assets that would be classified as infrastructure assets.

10. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated vested severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

11. Accrued Interest Payable

Accrued interest is presented for the long-term obligations in the district-wide statements in two components: the portion of interest payable that is due within one year is reported as a current liability, the remaining amount that is not due within one year has been reported as a noncurrent liability. The interest payable on the Durant Resolution bonds that were due May 15, 2003, 2004, 2005, and 2007, and a portion of the payment that is due May 15, 2008, is shown as a noncurrent liability due to the State of Michigan deferring these payments until May 15, 2009.

12. Long-term Obligations

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

13. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current revenue (collected as of year-end). Amounts received subsequent to June 30 are recognized as revenue when collected.

The District levies taxes of \$16.8512 per \$1,000 of taxable valuation on nonhomestead property for general governmental services and \$.50 per \$1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for debt service. The District is also permitted to levy additional amounts for enhancement and/or debt service if voter approval is obtained.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

14. State Foundation Revenue

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. Prior to the fiscal year ended June 30, 1995 the State utilized a district power equalizing approach. The foundation is funded from State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2007, the foundation allowance was based on the average of pupil membership counts taken in September 2006 and February 2006. The average calculation was weighted 75% for the September 2006 count and 25% for the February 2006 count.

The State portion of the foundation is provided primarily by a State education property tax millage of 6 mills and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by nonhomestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through nine (9) payments made during the fiscal year and two (2) payments made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

15. State Categorical Revenue

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received that are not expended by the close of the fiscal year have been reported as deferred revenue.

16. Interfund Transactions

Interfund transactions are reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers on the governmental fund financial statements. Transfers are netted as part of the reconciliation to the district-wide financial statements.

17. Federal Programs

Federal programs are accounted for in the General Fund and specific Special Revenue Funds.

18. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

2. Certificates of deposit issued by a State or National bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or Federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan School Code Section 1223 allows that security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school district in a bank, savings and loan association, or credit union.

Deposits

There is custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it.

As of June 30, 2007, the carrying amount of the District's deposits was \$138,993 and the bank balance was \$201,565, of which \$119,859 was covered by Federal depository insurance. The balance of \$81,706 was uninsured and uncollateralized.

Investments

As of June 30, 2007, the District had the following investments:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
Uncategorized pooled investment funds			
MLAFP - Cash Management Funds	<u>\$ 1,643,051</u>	<u>\$ 1,643,051</u>	N/A

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUEDCredit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2007, the District's investment in the uncategorized pooled investment (with Michigan Liquid Asset Fund Plus (MLAFP)) was rated AAA by Standard and Poor's.

Interest rate risk

The District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Concentration of credit risk

The District will minimize concentration of credit risk, which is the risk of loss attributed to magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business in accordance with Board approved policy.

As of June 30, 2007, the cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investment captions in the financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,690,541	\$ 65,740	\$ 1,756,281
Investments	<u>25,763</u>	<u>-</u>	<u>25,763</u>
	<u>\$ 1,716,304</u>	<u>\$ 65,740</u>	<u>\$ 1,782,044</u>

Due to significantly higher cash flow at certain periods during the year, the amount the District held as cash, cash equivalents, and investments increased significantly. As a result, the amount of uninsured and uncollateralized cash, cash equivalents, and investments were substantially higher at these peak periods than at year-end.

NOTE C: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2007, are as follows:

Due to nonmajor governmental funds from:	
General fund	<u>\$ 1,732</u>

Fulton Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE C: INTERFUND RECEIVABLES AND PAYABLES - CONTINUED

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE D: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers from General Fund to:	
Nonmajor governmental funds	<u>\$ 222,506</u>

NOTE E: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 12,225	\$ -	\$ -	\$ 12,225
Capital assets being depreciated				
Buildings	4,237,972	-	-	4,237,972
Equipment and furniture	2,343,089	62,816	-	2,405,905
Vehicles	1,008,712	-	-	1,008,712
Other capital equipment	<u>196,525</u>	<u>-</u>	<u>-</u>	<u>196,525</u>
Subtotal of capital assets being depreciated	7,786,298	62,816	-0-	7,849,114
Less accumulated depreciation for:				
Buildings	(2,574,638)	(70,012)	-	(2,644,650)
Equipment and furniture	(2,013,746)	(83,792)	-	(2,097,538)
Vehicles	(834,254)	(50,706)	-	(884,960)
Other capital equipment	<u>(189,243)</u>	<u>(1,634)</u>	<u>-</u>	<u>(190,877)</u>
Subtotal	<u>(5,611,881)</u>	<u>(206,144)</u>	<u>-0-</u>	<u>(5,818,025)</u>
Net capital assets being depreciated	<u>2,174,417</u>	<u>(143,328)</u>	<u>-0-</u>	<u>2,031,089</u>
Capital assets, net	<u>\$ 2,186,642</u>	<u>\$ (143,328)</u>	<u>\$ -0-</u>	<u>\$ 2,043,314</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

Fulton Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE F: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2007.

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Amounts Due Within One Year
1992 School Building and Site Bonds	\$ 200,000	\$ -	\$ 200,000	\$ -0-	\$ -
1998 Durant Resolution Bonds	44,070	-	-	44,070	-
Installment Loans	229,357	-	27,525	201,832	29,112
Accumulated sick pay	308,432	4,013	16,083	296,362	88,909
	<u>\$ 781,859</u>	<u>\$ 4,013</u>	<u>\$ 243,608</u>	<u>\$ 542,264</u>	<u>\$ 118,021</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below:

Resolution Bonds

\$74,637 1998 Durant Resolution Bonds dated November 15, 1998, due in annual installments from \$4,154 to \$25,787, with interest of 4.7615353 percent, payable annually. The annual debt service payments related to these bonds is paid through an annual appropriation from the State of Michigan. The State of Michigan has suspended payment until May 15, 2009.

\$ 44,070

Installment Loans

\$34,375 Installment Purchase Agreement dated July 16, 1998, due in semi-annual installments ranging from \$1,217 to \$1,655 through May 15, 2013 with interest at 5.68 percent, payable semi-annually.

\$ 17,109

\$236,268 Installment Purchase Agreement dated July 16, 1998 due in semi-annual installments ranging from \$8,362 to \$11,378 through May 15, 2013, with interest at 5.68 percent, payable semi-annually.

117,594

\$24,275 Installment Purchase Agreement dated December 9, 1998 due in semi-annual installments ranging from \$883 to \$1,201 through May 15, 2013, with interest at 5.68 percent, payable semi-annually.

12,415

\$17,380 Installment Purchase Agreement dated December 9, 1998 due in semi-annual installments ranging from \$632 to \$860 through May 15, 2013, with interest at 5.68 percent, payable semi-annually.

8,889

\$58,600 Installment Purchase Agreement dated December 9, 1998 due in semi-annual installments ranging from \$2,131 to \$2,900 through May 15, 2013, with interest at 5.68 percent, payable semi-annually.

29,970

\$31,000 Installment Purchase Agreement dated December 9, 1998 due in semi-annual installments ranging from \$1,127 to \$1,534 through May 15, 2013, with interest at 5.68 percent, payable semi-annually.

15,855

\$ 201,832

Fulton Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE F: LONG-TERM DEBT - CONTINUED

Annual Requirements for Bonded Debt and Installment Loans

The annual requirements to pay the debt principal and interest outstanding for the Long-Term Debt are as follows:

<u>Year Ending June 30,</u>	<u>Durant Resolution Bonds</u>		<u>Installment Loans</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ -	\$ -	\$ 29,112	\$ 11,056
2009	4,154	1,088	30,787	9,380
2010	4,351	890	32,561	7,606
2011	25,787	9,428	34,436	5,730
2012	4,775	466	36,420	3,747
2013	<u>5,003</u>	<u>239</u>	<u>38,516</u>	<u>1,649</u>
	<u>\$ 44,070</u>	<u>\$ 12,111</u>	<u>\$ 201,832</u>	<u>\$ 39,168</u>

The Durant Resolution Bonds referred to above are bonds whose future debt service payments by the District are contingent on an annual State of Michigan appropriation. This is the only revenue source for making the annual debt service payments on these bonds. If the legislature of the State of Michigan fails to appropriate the funds, in any particular year, the District is under no obligation for payment of that year's debt obligation. The State of Michigan has suspended payments on these bonds until May 15, 2009. It appears this suspension will have no financial impact on Fulton Schools in the future.

Sick Pay

In recognition of services to the District, a severance payment will be made upon termination to eligible employees according to their respective employment contracts or past District practice as follows:

Teachers and Administrative Staff

Employees eligible for non-disability retirement through the Michigan Public Schools Employee Retirement System and having at least fifteen (15) years of consecutive service to the Board shall be paid a severance payment on the following schedule:

After fifteen (15) years of service, five (5) days' salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.

After twenty (20) years of service, ten (10) days' salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.

After twenty-five (25) years of service, fifteen (15) days' salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.

Support Staff

Employees completing ten (10) years of service to the District and reaching age fifty (50) or above shall be paid a severance payment on the following schedule:

After ten (10) years of service, one (1) week salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.

After fifteen (15) years of service, two (2) weeks salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE F: LONG-TERM DEBT - CONTINUED**Support Staff - continued**

After twenty (20) years of service, three (3) weeks salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.

After twenty-five (25) years of service, four (4) weeks salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.

Under GASB Statement No. 16 requirements, the District has elected to implement the "vesting" method of calculating the terminal and sick leave liabilities. The amounts accumulated for all employees currently vested are calculated along with an amount for other employees who currently are not vested but are probable to vest in future years. The sick leave amounts for employees who currently are not vested are calculated by using total unused sick leave amounts at June 30, 2007, for all nonvested employees. The terminal leave amounts for employees who currently are not vested are calculated by taking the sum of nonvested employees' salaries for the year ended June 30, 2007, and multiplying it by the applicable years of service percentage. Both of these amounts are multiplied by a historical termination percentage. This percentage is based on an estimate of the percentage of employees who have terminated employment fully vested in the past five (5) years.

A summary of the calculated amounts of accrued severance pay and related payroll taxes as of June 30, 2007, which has been recorded in the District-wide financial statements, is as follows:

	<u>Vested Employees</u>	<u>Nonvested Employees</u>	<u>Total</u>
Severance pay	\$ 229,481	\$ 45,821	\$ 275,302
Payroll taxes	<u>17,555</u>	<u>3,505</u>	<u>21,060</u>
	<u>\$ 247,036</u>	<u>\$ 49,326</u>	<u>\$ 296,362</u>

NOTE G: EMPLOYEE RETIREMENT SYSTEM

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2006, the last year available, may be obtained by contacting the State of Michigan Department of Management and Budget.

The payroll for employees covered by the MPERS for the year ended June 30, 2007, was \$4,805,258 of which \$3,510,510 was for members who have elected the MIP option; the District's total payroll was \$5,029,363.

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of credited service, or at age sixty while still working with a minimum total of five (5) years of credited service, with credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years of credited service.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten (10) or more years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service, and performed service credit in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPSERS also provides death and disability benefits and health and medical, dental, vision and hearing insurance coverage. Benefits are established by state statute.

Employees who selected MIP on or before December 31, 1989, contributed 4% from January 1, 1987 to December 31, 1989 and 3.9% thereafter. Employees first hired on or after January 1, 1990, are required to contribute based on a graduated rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

For the period of July 1, 2006 to September 30, 2006, the District was required by State statute to contribute 16.34% of covered compensation for all wages to the Plan. For the period of October 1, 2006 to June 30, 2007 the District is required by State statute to contribute 17.74% of covered compensation for all wages to the Plan. The total amount contributed to the Plan for the year ended June 30, 2007, and the previous two (2) years is as follows:

<u>June 30,</u>	<u>MIP</u> <u>Contributions</u>	<u>District</u> <u>Contributions</u>	<u>Total</u> <u>Contributions</u>
2007	\$ 134,766	\$ 839,105	\$ 973,871
2006	129,315	779,139	908,454
2005	123,982	672,582	796,564

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years:

<u>June 30,</u>	<u>MIP</u> <u>Contributions</u>	<u>District</u> <u>Contributions</u>
2007	4.0 %	17.5 %
2006	4.0	16.0
2005	4.0	14.9

NOTE H: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of fund balance that the District has set aside for specific purposes.

The following are the various fund balance reserves as of June 30, 2007:

General Fund	
Reserved for inventories and prepaids	\$ <u>37,776</u>
Nonmajor Governmental Funds	
Inventories	\$ 3,187
Scholarships	27,763
Debt Service	<u>17,535</u>
	\$ <u>48,485</u>

Fulton Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE I: RESTRICTED NET ASSETS

Restrictions of net assets shown in the District-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following is the net asset restriction as of June 30, 2007:

Governmental activities	
Restricted for debt service	<u>\$ 7,996</u>

NOTE J: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

The District's budgeted expenditures in the General and Special Revenue Funds have been adopted at the functional classification level.

During the year ended June 30, 2007, the District incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Supporting services			
Student services	\$ 209,655	\$ 210,184	\$ 529
Food Service Fund	310,130	315,819	5,689

NOTE K: RISK MANAGEMENT

The District participates in a pool, the MASB-SEG Property and Casualty Pool, with other school districts for property, liability, in-land marine, crime, employee dishonesty, and errors and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

The District is exposed to risks of loss related to the District's workers' compensation for which the District carries commercial insurance.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE L: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplaintiff District an agreed upon amount for past underfunding of special education. Fulton Schools, a nonplaintiff District, was awarded \$149,274 in the settlement. The funds are being paid as follows:

- a. One-half is being paid over the next ten (10) years, which began November 15, 1998. The restrictions on use of these funds are detailed within State School Aid Act, Section 11F(6). These funds are recorded within the General Fund as categorical State Aid. At the end of the current year all these funds had been expended.
- b. One-half is being paid over the next fifteen (15) years, which began May 15, 1999. The District borrowed this portion of the settlement amount through the Michigan Municipal Bond Authority on November 15, 1998. These funds were recorded as bond proceeds in the Capital Projects Fund. The bond proceeds may be used for any purpose specified in Section 1351 (a) of the Revised School Code. The debt service payments for these bonds are to be made through an annual legislative appropriation. If the State of Michigan legislature fails to make the annual appropriation the District is under no obligation for the debt payments for that year. The District has pledged the annual State payments to the Michigan Municipal Bond Authority for payment of debt service.

REQUIRED SUPPLEMENTARY INFORMATION

Fulton Schools

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 454,000	\$ 497,950	\$ 530,130	\$ 32,180
State sources	7,124,113	7,447,688	7,467,164	19,476
Federal sources	195,680	269,465	244,063	(25,402)
TOTAL REVENUES	7,773,793	8,215,103	8,241,357	26,254
EXPENDITURES				
INSTRUCTION				
Basic programs	3,696,109	3,683,212	3,672,533	10,679
Added needs	720,631	723,778	717,015	6,763
Adult and continuing education	713,825	782,759	776,162	6,597
TOTAL INSTRUCTION	5,130,565	5,189,749	5,165,710	24,039
SUPPORTING SERVICES				
Student services	217,274	209,655	210,184	(529)
Instructional staff	161,552	160,095	159,321	774
General administration	303,465	304,225	296,642	7,583
School administration	515,584	529,995	527,804	2,191
Other business services	78,780	34,090	33,970	120
Operations and maintenance	727,620	700,000	699,145	855
Transportation	664,955	709,719	709,200	519
TOTAL SUPPORTING SERVICES	2,669,230	2,647,779	2,636,266	11,513
COMMUNITY SERVICES	209,545	207,214	205,420	1,794
DEBT SERVICE				
Principal	27,525	27,525	27,525	-0-
Interest	12,645	12,645	12,642	3
TOTAL DEBT SERVICE	40,170	40,170	40,167	3
TOTAL EXPENDITURES	8,049,510	8,084,912	8,047,563	37,349
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(275,717)	130,191	193,794	63,603

Fulton Schools

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES (USES)				
County special education allocation	\$ 320,000	\$ 320,000	\$ 321,763	\$ 1,763
Payments to other districts	(133,025)	(149,155)	(149,032)	123
Transfers to other funds	(220,000)	(226,677)	(222,506)	4,171
TOTAL OTHER FINANCING SOURCES (USES)	(33,025)	(55,832)	(49,775)	6,057
CHANGE IN FUND BALANCE	(308,742)	74,359	144,019	69,660
Fund balance, beginning of year	2,168,566	2,168,566	2,168,566	-0-
Fund balance, end of year	<u>\$ 1,859,824</u>	<u>\$ 2,242,925</u>	<u>\$ 2,312,585</u>	<u>\$ 69,660</u>

OTHER SUPPLEMENTARY INFORMATION

Fulton Schools
Nonmajor Governmental Funds
COMBINING BALANCE SHEET
June 30, 2007

	Special Revenue Funds		Debt Service Fund
	Food Service	Athletics	1992 Debt
ASSETS			
Cash and cash equivalents	\$ 9,048	\$ 9,138	\$ 16,287
Investments	-	-	-
Due from other funds	484	-	1,248
Due from other governmental units	2,300	-	-
Inventories	3,187	-	-
TOTAL ASSETS	\$ 15,019	\$ 9,138	\$ 17,535
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 1,891	\$ -	\$ -
Due to others	-	7,571	-
TOTAL LIABILITIES	1,891	7,571	-0-
FUND BALANCES			
Reserved for			
Inventories	3,187	-	-
Debt service	-	-	17,535
Scholarships	-	-	-
Unreserved			
Undesignated, reported in			
Special revenue funds	9,941	1,567	-
Capital project funds	-	-	-
TOTAL FUND BALANCES	13,128	1,567	17,535
TOTAL LIABILITIES AND FUND BALANCES	\$ 15,019	\$ 9,138	\$ 17,535

Capital Project Fund	Permanent Fund	
General Projects	Athol Gamble Memorial Scholarship Fund	Total
\$ 8,747	\$ 2,000	\$ 45,220
-	25,763	25,763
-	-	1,732
-	-	2,300
-	-	3,187
<u>\$ 8,747</u>	<u>\$ 27,763</u>	<u>\$ 78,202</u>
\$ -	\$ -	\$ 1,891
-	-	7,571
-0-	-0-	9,462
-	-	3,187
-	-	17,535
-	27,763	27,763
-	-	11,508
8,747	-	8,747
<u>8,747</u>	<u>27,763</u>	<u>68,740</u>
<u>\$ 8,747</u>	<u>\$ 27,763</u>	<u>\$ 78,202</u>

Fulton Schools

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES

Year Ended June 30, 2007

	Special Revenue Funds		Debt Service Fund
	Food Service	Athletics	1992 Debt
REVENUES			
Local sources	\$ 149,771	\$ 66,911	\$ 63,675
State sources	17,944	-	-
Federal sources	114,104	-	-
TOTAL REVENUES	281,819	66,911	63,675
EXPENDITURES			
Current			
Food service	315,819	-	-
Athletics	-	277,666	-
Debt service			
Principal retirement	-	-	200,000
Interest, fiscal and other charges	-	-	12,056
TOTAL EXPENDITURES	315,819	277,666	212,056
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(34,000)	(210,755)	(148,381)
OTHER FINANCING SOURCES			
Transfers from other funds	11,677	210,829	-
CHANGE IN FUND BALANCES	(22,323)	74	(148,381)
Fund balances, beginning of year	35,451	1,493	165,916
Fund balances, end of year	\$ 13,128	\$ 1,567	\$ 17,535

Capital Project Fund	Permanent Fund	
General Projects	Athol Gamble Memorial Scholarship Fund	Total
\$ 22	\$ 2,669	\$ 283,048
-	-	17,944
-	-	114,104
22	2,669	415,096
-	-	315,819
-	-	277,666
-	-	200,000
-	-	12,056
-0-	-0-	805,541
22	2,669	(390,445)
-	-	222,506
22	2,669	(167,939)
8,725	25,094	236,679
<u>\$ 8,747</u>	<u>\$ 27,763</u>	<u>\$ 68,740</u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education
Fulton Schools
Middleton, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fulton Schools as of and for the year ended June 30, 2007, which collectively comprise Fulton Schools' basic financial statements and have issued our report thereon dated September 27, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fulton Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of Fulton Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Fulton Schools' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

PREPARATION OF FINANCIAL STATEMENTS

Governmental entities are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Responsibility for the financial statements of the District rests with the Districts' management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

PREPARATION OF FINANCIAL STATEMENTS - CONTINUED

It has historically been common for many small to medium-sized governments to rely on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. As a result, a government's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal controls.

The condition noted in the preceding paragraph exists at Fulton Schools. The cause for this condition is simply because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

As a result of this condition, the employees and/or management do not possess the qualifications necessary to prepare the Districts' annual financial statements and notes to the financial statements in accordance with GAAP. The District relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

We recommend the District consider obtaining the proper training for the appropriate staff members to assure that they are able to fully understand what goes into the preparation of the annual audited financial statements and so that they can take responsibility for the preparation of the annual audited financial statements, assure there are no material misstatements, and assure there are appropriate disclosures in accordance with accounting principles generally accepted in the United States of America.

MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Material journal entries were proposed by the auditors. These misstatements were not detected by the District's internal control over financial reporting. Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (when applicable), including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

We recommend that the District take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We believe that both of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fulton Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described below.

VIOLATION OF BUDGETING ACT

As noted in the financial statements, some of the activities of the District exceeded the amounts appropriated. The variances noted were in the General Fund and the Food Service Fund.

VIOLATION OF BUDGETING ACT - CONTINUED

Michigan Public Act 621 of 1978, as amended, provides that the District adopt formal budgets for its General Fund and Special Revenue Fund, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

We recommend the District monitor expenditures against adopted budgets and make appropriate budget amendments as needed.

This report is intended solely for the information and use of management, the Board of Education of Fulton Schools, and others within the District, and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 27, 2007